



State of New Jersey

Department of the Treasury

July 13, 2004

New Jersey Offers Settlement Initiative for “Son of BOSS” Tax Shelters and Other Abusive Tax Transactions

TRENTON – State Treasurer John E. McCormac and Division of Taxation Director Robert K. Thompson announced today that taxpayers who invested in a variety of bond and option sales strategies, commonly called “Son of BOSS” tax shelters, as well as other federally listed abusive tax avoidance transactions, will have until September 15, 2004, to submit a written application to resolve the tax issues.

“Abusive tax schemes that are designed to deprive the State of expected tax revenue place a disproportionate burden on honest, compliant taxpayers,” stated Director Thompson. “We will continue our efforts to identify and correct such practices.”

In the late 1990s, the U.S. Treasury Department issued a notice to shut down the abusive tax shelter known as the Bond and Option Sales Strategy (BOSS), which was marketed and sold by investment bankers to tax accountants. One year later, the IRS similarly struck down a scheme with a similar design, known as “Son of BOSS.”

As in the BOSS shelter, the “Son of” scheme featured a series of contrived steps to generate artificial tax losses from investments designed to offset income from other transactions. The IRS in 2000 denied taxpayers the purported losses resulting from this shelter transaction because they do not represent bona fide losses reflecting actual economic consequences as required under the tax law.

New Jersey’s initiative will require taxpayers to concede 100% of the tax at issue plus interest, computed at prime rate plus 3%. Taxpayers that take advantage of this initiative will avoid all penalties, which may include the imposition of a 50% civil fraud penalty. Transaction costs such as promoter and professional fees will not be deductible.

Taxpayers wishing to participate in this initiative will be required to submit a written application, signed under penalty of perjury, no later than September 15, 2004. The application must identify in detail their participation in the abusive transactions, the entities utilized, the name(s) of the promoter(s) and all information necessary to determine the tax, interest and penalty, if applicable.

Taxpayers who have additional questions regarding this initiative or who wish to submit an application may contact Richard W. Schrader, Assistant Director, Audit Activity at (609) 292-0978.